

Message Text

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ACTION EUR-12

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TAGS: ECON, CA
SUBJECT: PARIZEAU REJECTS LATEST CHRETIEN PROPOSAL ON
SALES TAX

REF: QUEBEC 0183

1. ANTICIPATED BREAK IN THE TWO MONTH OLD QUEBEC OTTAWA DEADLOCK OVER SALES TAX ISSUE (REFTEL) FAILED MATERIALIZE YESTERDAY (JUNE 1), WHEN FINANCE MINISTER JACQUES PARIZEAU REJECTED TWO COMPROMISE PROPOSALS PUT FORWARD BY HIS FEDERAL COUNTERPART, JEAN CHRETIEN. SINCE THE FEDERAL BUDGET NOW BEFORE COMMONS PROVIDES FOR A DIRECT PAYMENT TO THE QUEBEC GOVERNMENT OF ONLY DOLS 40 MILLION OUT OF THE ESTIMATED DOLS 225 MILLION WHICH THE PROVINCE STANDS TO LOSE BY ABOLISHING ITS SALES TAX IN SELECTED SECTORS RATHER THAN ACROSS THE BOARD REDUCTION, QUEBEC WILL SUFFER A SERIOUS DEFICIT IN AN ALREADY STRAIGHTENED BUDGET.

2. CHRETIEN'S FIRST COMPROMISE PROPOSAL CALLED FOR AN AGREEMENT BETWEEN THE TWO GOVERNMENTS WHEREBY OTTAWA WOULD LOWER

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THE FEDERAL INCOME TAX AND QUEBEC RAISE ITS OWN CORRESPONDINGLY; THE TAX WOULD BE COLLECTED BY OTTAWA AND TURNED OVER IN ITS TOTALITY TO THE QUEBEC GOVERNMENT, WITH CONDITION THAT QUEBEC LOWER ITS SALES TAX ACROSS THE BOARD FOR THREE MONTHS TO GET ITSELF MORE

IN LINE WITH

WHAT THE OTHER CANADIAN PROVINCES WERE DOING. EXCEPT FOR LATTER CONDITION, CHRETIEN'S PROPOSAL IS VERY SIMILAR TO ONE OF SOLUTIONS SUGGESTED BY CLAUDE RYAN RECENTLY (QUEBEC 0178). PARIZEAU CALLED THE CONDITION ANOTHER UNACCEPTABLE INCURSION INTO PROVINCIAL JURISDICTION AND TURNED IT DOWN FLAT.

3. CHRETIEN'S SECOND PROPOSAL INVOLVED DOLS 100 REDUCTION IN THE 1978 FEDERAL TAX FOR EACH QUEBEC TAXPAYER; QUEBEC WOULD THEN RECUPERATE THAT SUM BY INCREASING ITS OWN TAX. THIS SOLUTION, WHICH WOULD AVOID A DIRECT TRANSFER OF MONIES FROM OTTAWA TO QUEBEC, IS VIRTUALLY IDENTICAL TO RYAN'S OTHER PROPOSAL LAST WEEK. PARIZEAU HAD PRONOUNCED HIMSELF "WILLING TO CONSIDER" SUCH A SOLUTION LAST WEEK (GIVING RISE TO PRESS REPORTS THAT PARIZEAU WAS "JUGGLING WITH THE RYAN PROPOSAL) BUT REJECTED IT YESTERDAY ON GROUNDS THAT IT WOULD NOT BENEFIT THE POOREST QUEBECERS WHO WERE PAYING NO TAX AT ALL AND THAT QUEBEC WOULD NOT SEE THE MONEY UNTIL NEXT YEAR, LEAVING THE PROVINCE WITH A DEFICIT IN THE MEANTIME THAT WOULD COST IT AN ESTIMATED DOLS 8 MILLION IN INTEREST TO COVER.

4. PARIZEAU MAINTAINED THAT BOTH PROPOSALS WOULD PENALIZE QUEBEC FINANCIALLY AND WERE INTENDED TO PUNISH THE GOQ FOR "APPLYING A FORMULA TO REDUCE THE TAXES WHICH HAS PROVED BETTER THAN THAT APPLIED ELSEWHERE." (IN SUPPORT OF THIS CONTENTION, QUEBEC'S STATISTICS OFFICE RELEASED A LIMITED OFFICIAL USE

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STUDY YESTERDAY DEMONSTRATING THAT PARIZEAU'S SELECTIVE SALES TAX CUTS WERE MORE STIMULATING TO THE ECONOMY THAN THE ACROSS THE BOARD REDUCTIONS ORIGINALLY PROPOSED BY CHRETIEN.) IN EXPLAINING HIS REJECTION OF CHRETIEN'S COMPROMISES TO THE NATIONAL ASSEMBLY YESTERDAY AFTERNOON, PARIZEAU GOT THE IMMEDIATE BACKING OF BOTH THE OPPOSITION LIBERAL AND UNION NATIONALE PARTIES.

5. COMMENT: PARIZEAU HAD SAID LAST WEEK THAT HE WAS OPEN TO AN INCOME TAX ADJUSTMENT DEAL, AS HAD BEEN SUGGESTED BY RYAN. WHILE CHRETIEN'S PROPOSALS WERE BOTH SIMILAR TO RYAN'S FORMULATIONS, THEY NEVERTHELESS WILL RESULT IN SOME FINANCIAL LOSS TO QUEBEC OR TO THE CURTAILMENT OF QUEBEC'S SELECTIVE SALES TAX CUTS. SEEING HIMSELF WELL AHEAD ON POLITICAL POINTS, PARIZEAU IS NOW UNWILLING TO MAKE CONCESSIONS WHICH WOULD COST HIM SOMETHING. CONTINUED SUPPORT OF THE OPPOSITION PARTIES IN QUEBEC'S NATIONAL ASSEMBLY DEMONSTRATES THE ABSENCE OF PRESSURE ON PARIZEAU FROM ANY SIGNIFICANT QUEBEC SOURCE. MOREOVER, PARIZEAU IS WELL AWARE OF THE HEAVY PRESSURES ON CHRETIEN TO COMPROMISE. SOMEWHAT SURPRISING, HOWEVER, IS THE PROVINCIAL

LIBERALS IMMEDIATE BACKING OF PARIZEAU'S POSITION, GIVEN THAT
CHRETIEN'S PROPOSALS WERE SO STRIKINGLY SIMILAR TO RYAN'S.
THERE WAS SPECULATION IN LA PRESSE TODAY THAT LIBERAL
PARLIAMENTARY LEADER GERARD LEVESQUE WOULD BE "AMPLIFYING"
HIS PARTY'S POSITION EARLY NEXT WEEK. PERHAPS, PARIZEAU'S
REJECTION OF CHRETIEN'S OLIVE BRANCH WILL EVENTUALLY TURN TO
HIS DISADVANTAGE. HOWEVER, FEW QUEBECOIS UNDERSTAND TECHNICAL
ISSUES INVOLVED, BUT MOST, REGARDLESS OF PARTY AFFILIATION,
NOW HAVE FIXED IMPRESSION THAT FEDERAL GOVERNMENT IN THIS CASE IS
SOMEHOW WORKING AGAINST QUEBEC INTERESTS. THIS IMPRESSION WILL BE
DIFFICULT TO DISLODGE. MCNAMARA

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